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Global Economics

The lack of affordable land for development will add time and costs to both public and private efforts to build more homes in a country where about 60 percent of the population lives in rental housing and fewer than 4 percent of homes are bought with mortgages. Land commonly accounts for 50 percent of the cost of building a home in Saudi Arabia, compared with about a third in Europe, according to Syson of broker Cluttons. The expense deters private developers from building middle-income homes.

Expanding into the desert outside the cities isn’t an attractive option because of the cost, according to Mohamad Alawaz, senior economist at National Commercial Bank. The government would have to build infrastructure, as well as schools, hospitals and shopping centers in areas as far as 80 kilometers (49 miles) from city centers, says Ghosheh. The government, which set the construction budget at 500,000 riyals per home for King Abdullah’s initiative, would have to spend more than double that amount if it had to build in the desert as well.

Saudi authorities plan to address the lack of available urban land as part of a national housing strategy that has been submitted for approval to the Shura Council, the kingdom’s consultative body. Mohammed Alzumai, spokesman for the Housing Ministry, says the strategy includes measures to combat land speculation and incentives to build, such as development financing, partnerships with builders, and simplified planning regulations.

Even with the limits on land, there are signs that the decision to make mortgages more accessible are lifting home purchases. Real estate financing jumped 83 percent to a record 48 billion riyals in the fourth quarter from a year earlier, according to data compiled by the central bank. Saudi authorities have finally approved the first nine projects to be built under the King’s housing initiative, engineering and construction firm Parsons said on March 3. Seventy thousand homes will be built.

To prod landowners into developing their plots, the kingdom could levy a “betterment fee” that charges landowners for the government-provided infrastructure that has helped drive up the value of their land, Ghosheh says. Imposing such a fee for undeveloped land would probably run into opposition by both land-owning families and other Saudis concerned about the precedent it would set for other forms of taxation. “The Saudi government has contemplated in the past imposing tax against undeveloped plots,” says Syson. “It fell by the wayside because of a huge uproar, as it’s often wealthy and influential people that own most of the land.”

“Central Banks

The Fed May Be Miscounting the Money

By one metric, the money supply shrank in 2010 instead of expanding

Divisia indexes “don’t solve certain practical issues”

Even a third-grader knows that adding unlike things is problematic. Seven grapes and one watermelon do not equal one grape and seven watermelons, even though both are eight pieces of fruit. But the Federal Reserve persists in adding different kinds of money as if they were identical: assets that are easily spendable and ones that aren’t; ones that earn interest and ones that don’t.

Why does this matter? Because the amount of money could affect economic activity in the short run, and inflation—or deflation—in the long run. Miscounting it could cloud the Fed’s understanding of how the economy is functioning. The Fed’s broad measure of the money supply (M2) grew 4 percent to 6 percent annually during the housing bubble and then 2 percent in 2010 in the aftermath of the burst. But a measure from the New York-based Center for Financial Stability, capturing more kinds of money and using a more technically sound counting method, found that the money supply grew 6 percent to 8 percent during the bubble and then outright shrank in 2010 (chart). Those fluctuations, officially accounted for, may have contributed to the boom and bust.

Money to an economist is not just cash but anything that’s as spendable as cash and earns no interest, such as a checking account. A certificate of deposit has less “moneyness” than cash or money in a checking account because it can’t be spent as readily.

The Fed makes two mistakes with this approach. First, its M2 makes no distinction between the moneyness—i.e., spending potency—of cash vs. that of interest-bearing time deposits. (That’s the grapes and watermelons problem.) Second, because the Fed lacks a money measure broader than M2, it doesn’t capture the contribution to liquidity from assets such as commercial paper and Treasury bills, which are at least somewhat spendable.

A crusade to get the Fed to change its money-counting ways is being led by William Barnett, who has a Ph.D. in statistics and is a professor of macroeconomics at the University of Kansas, as well as director of the Center for Financial Stability. Before going into economics,
Barnett was an engineer for Rocketdyne, where he helped develop the Saturn V rockets used in the Apollo space program. From 1973 to 1981 he worked for the Fed in Washington, where he began to develop his ideas on monetary statistics. One of his Ph.D. advisees at the University of Texas in the 1980s was Salam Fayyad, now prime minister of the Palestinian National Authority. Barnett co-wrote a book called Inside the Economist’s Mind with the late Nobel economist Paul Samuelson.

All the while he was perfecting his money-counting method, named Divisia after French economist François Divisia (1889-1964), and becoming frustrated with the Fed. “He is a hard-core scientist. He has no patience for people who think they can take shortcuts,” says Peter Ireland, a Boston College economist.

Last year, MIT Press published a book by him called Getting It Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy. It earned blurbs from top economists such as James Heckman, a Nobel laureate and former Citigroup senior vice chairman, about Japan and China.

**Tom Keene’s EconoChat**

*Tom talks with William Rhodes, CEO of William R. Rhodes Global Advisors and former Citigroup senior vice chairman, about* Japan and China

**Is Abenomics going to work?**

[Abenomics refers to the policy of Japanese Prime Minister Shinzo Abe to weaken the yen and promote inflation.]

Abe has a good guy in there, his new central bank head, [Haruhiko] Kuroda. But fiscal and monetary stimulus aren’t enough. They’ve had 11 of those plans in the last 15 years. They need deregulation and structural reforms.

**This is about changing Japanese culture, isn’t it?**

Exactly. And if Abe doesn’t have that third leg of the stool, it ain’t going to work. I think they’re off to a good start, though.

**Switching to China, I notice the first foreign trip for Xi Jinping was to Russia.**

They did a bunch of oil and gas deals and said they wanted to work more closely together on exterior political issues like Syria. So you’re seeing this alliance form.

**In this messy world, how does America best protect its interests?**

One of the things we have to do is, when we make announcements, we have to live up to them. We have a tendency to say we’re going to do things, then not do them. We spent all these lives and treasure in Iraq, and then we pull out. And so in the Middle East people— including our friends the Turks— wonder, are we still there or not?"